

Exhibit No.:
Issues: Class Cost of Service Report
Rate Design
Witness: James A. Busch
Sponsoring Party: MoPSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: WR-2011-0337
Date Testimony Prepared: February 2, 2012

MISSOURI PUBLIC SERVICE COMMISSION

**TARIFF, SAFETY, ECONOMIC, AND
ENGINEERING ANALYSIS
DEPARTMENT**

REGULATORY REVIEW DIVISION

SURREBUTTAL TESTIMONY

OF

JAMES A. BUSCH

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2011-0337

*Jefferson City, Missouri
February 2012*

*Staff Exhibit No. 17-NP
Date 2-21-12 Reporter JL
File No. WR-2011-0337*

****Denotes Highly Confidential Information****

NP

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

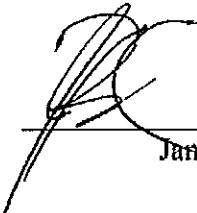
In the Matter of Missouri-American Water)
Company's Request for Authority to)
Implement A General Rate Increase for)
Water and Sewer Service Provided in)
Missouri Service Areas)

Case No.: WR-2011-0337

AFFIDAVIT OF JAMES A. BUSCH

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

James A. Busch, of lawful age, on his oath states: that he has participated in the preparation of the following Surrebuttal Testimony in question and answer form, consisting of 19 pages of Surrebuttal Testimony to be presented in the above case, that the answers in the following Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.



James A. Busch

Subscribed and sworn to before me this 1st day of February, 2012.

<p style="text-align: center;">LAURA HOLSMAN Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: June 21, 2016 Commission Number: 11203914</p>
--



Notary Public

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20

TABLE OF CONTENTS
SURREBUTTAL TESTIMONY
OF
JAMES A. BUSCH
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2011-0337

BACKGROUND INFORMATION 2

STAFF'S PROPOSAL vs DISTRICT SPECIFIC PRICING 3

STAFF'S PROPOSAL vs SINGLE-TARIFF PRICING 9

SPECIFIC RESPONSES TO OTHER COMMENTS 13

ALTERNATIVE RECOMMENDATIONS 15

SEWER OPERATIONS 16

STAFF RECOMMENDATIONS 17

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27

SURREBUTTAL TESTIMONY

OF

JAMES A. BUSCH

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2011-0337

Q. Please state your name and business address.

A. My name is James A. Busch and my business address is P. O. Box 360, Jefferson City, Missouri 65102.

Q. By whom are you employed and in what capacity?

A. I am the Regulatory Manager of the Water and Sewer Unit, Regulatory Review Division of the Missouri Public Service Commission (Commission).

Q. Are you the same James A. Busch that filed Direct Testimony in this case?

A. Yes I am.

Q. What is the purpose of your Surrebuttal Testimony?

A. The purpose of my Surrebuttal Testimony is to respond to the rebuttal testimony regarding rate design of the following witnesses:

- Barbara Meisenheimer – Office of Public Counsel (Public Counsel)
- Donald Johnstone – Ag Processing, Inc, A Cooperative (AgP)
- Michael Gorman – Missouri Industrial Energy Consumers and Triumph Foods, LLC (MIEC)
- Karl McDermott – Missouri-American Water Company (MAWC or Company).

1 **BACKGROUND INFORMATION**

2 Q. When you are discussing rate design, what are you referring to in this case?

3 A. In this proceeding, rate design refers to the development of the appropriate rate
4 structure to apply in the establishment of rates for the various districts or service territories
5 served by MAWC.

6 Q. What various pricing structures are recognized in the regulatory industry?

7 A. There are three general pricing structures. Two of the basic pricing structures
8 are district specific pricing and single-tariff pricing. The third basic pricing structure is any
9 combination of the other two structures. Sometimes, the third structure is referred to as
10 spatial or geographic pricing. In this proceeding, I will refer to this third structure as hybrid.

11 Q. What is the current pricing structure in place for MAWC?

12 A. The current pricing structure is generally considered district specific. Most
13 district rates were designed based on the cost of providing service in each individual district.
14 However, there is some level of revenue responsibility sharing among some districts and
15 between water districts and sewer districts. This structure includes 19 separate water systems
16 and eight separate sewer districts. This structure was approved by the Commission in
17 response to a Unanimous Stipulation and Agreement agreed to or not opposed by the parties
18 in MAWC's previous rate case, Case No. WR-2010-0131.

19 Q. What is Staff's position regarding rate design in this proceeding?

20 A. Staff recommends a hybrid pricing structure as outlined in my Direct
21 Testimony. This hybrid strategy combines MAWC's 19 separate water systems into three
22 districts and its eight sewer districts into four districts.

23 Q. What is the Company's position regarding rate design in this proceeding?

24 A. The Company is proposing to move to single-tariff pricing.

Surrebuttal Testimony of
James A. Busch

1 Q. Do any other parties have rate design recommendations?

2 A. Yes. Public Counsel, AgP, and MIEC have all recommended maintaining
3 district specific pricing. Also, the mayors of the cities of Riverside and Brunswick have filed
4 testimony in general support of a change to single-tariff pricing.

5 Q. Does hybrid pricing currently exist in MAWC's service territory?

6 A. Yes.

7 Q. Where?

8 A. In MAWC's sewer territory that includes Cole and Callaway Counties recently
9 acquired from Aqua Missouri, there is a spatial (or hybrid) pricing structure.

10 Q. Please explain this spatial pricing structure.

11 A. Currently, there are approximately 50 small sewer systems that MAWC
12 operates in the Cole and Callaway Counties' service territory. Some of those systems have
13 over one hundred customers. Some of those systems have less than ten customers. Some of
14 those systems have lagoons, while some of those systems have mechanical treatment
15 facilities. None of them are interconnected. If an analyst took the time to do the nearly 50
16 cost of service studies, the analyst would probably discover that each system has its own costs
17 and cost structure and thus should have its own rate, although many of the costs are generic to
18 the entire area, such as labor. However, every residential customer in all of those systems
19 pays the same flat rate of \$53.22 per month. This is a good example of Staff's proposal in this
20 case.

21 **STAFF'S PROPOSAL vs DISTRICT SPECIFIC PRICING**

22 Q. Is there a common theme among the witnesses recommending district specific
23 pricing in opposition of Staff's hybrid proposal?

24 A. Yes.

Surrebuttal Testimony of
James A. Busch

1 Q. What is the main opposition to Staff's hybrid proposal?

2 A. The main opposition to Staff's hybrid proposal as voiced by witnesses
3 Gorman, Johnstone, and to a lesser extent Meisenheimer is their unfounded concern about
4 subsidization.

5 Q. What is a subsidy?

6 A. A subsidy is generally defined as an entity providing benefit to another entity
7 to offset higher costs. In this case, a subsidy is being defined as customers in a "lower-cost"
8 district providing support to customers in a "higher-cost" district. The result would be that
9 customers in a so-called "lower-cost" district would pay higher rates than they would under a
10 purely cost basis and customers in a so-called "higher-cost" district would pay lower rates
11 than they would under a purely cost basis.

12 Q. Is it Staff's primary purpose to promote the subsidization of "high-cost"
13 districts from "low-cost" districts?

14 A. No. Staff's primary goal is not the promotion of subsidization among districts.
15 Staff's goal is to create a pricing structure that is in the public interest and that promotes the
16 continued provision of safe and adequate service at just and reasonable rates. Staff's hybrid
17 recommendation does that.

18 Q. How does Staff's hybrid pricing structure promote the provision of safe and
19 adequate service at just and reasonable rates?

20 A. In MAWC's last rate case, the Company provided water service in the
21 following areas: Brunswick, Jefferson City, Joplin, Mexico, Platte County, St. Joseph, St.
22 Louis Metro (includes St. Charles), Warren County, and Warrensburg. Since that case,
23 MAWC has added, through asset acquisitions, the service areas of Loma Linda (now

Surrebuttal Testimony of
James A. Busch

1 interconnected to the Joplin service territory), Roark, and the former Aqua Missouri service
2 territories of Lake Carmel/Maplewood, Lakewood Manor, Lake Taneycomo, Ozark
3 Mountain, Rankin Acres, Riverside Estates, Spring Valley, and White Branch. These systems
4 do not include the sewer service areas. Currently, many of these districts are already
5 experiencing relatively high rates. Attached to this Surrebuttal Testimony is Schedule JAB-
6 SR1. This schedule is a ranking of all investor-owned utilities residential monthly bills based
7 upon their currently effective tariffed rates and an average usage of 5,000 gallons per month.
8 The list reveals that a majority of the districts with the highest rates are all operated by
9 MAWC and have a relatively small customer base. Granted, a majority of these systems were
10 previously operated by Aqua Missouri.

11 In this proceeding, based upon Staff's proposed revenue requirement,
12 residential customers in those highest priced districts could see rates go up from
13 approximately 50% to over 160% over current rates if district specific pricing is continued.
14 Considering the current level of rates and the potential increase, Staff asserts that this
15 combination of excessive rates and rate shock produces rates that are no longer just or
16 reasonable. However, under Staff's hybrid proposal, rates are maintained or decreased in
17 most districts, keeping the rates just and reasonable.

18 Q. If certain districts would have increases tempered under Staff's hybrid
19 proposal, doesn't that mean that certain districts will have higher rates under Staff's plan
20 compared to district specific pricing?

21 A. Yes. Schedule JAB-SR2 attached to this testimony is a comparison of current
22 rates, rates under Staff's hybrid pricing structure, rates under district specific pricing, and
23 rates under single-tariff pricing for an average residential consumer using 5,000 gallons per

Surrebuttal Testimony of
James A. Busch

1 month. For instance, in looking at Staff Hybrid Water District 2 that includes the districts of
2 Brunswick, Platte County, and St. Joseph, one can compare the three basic proposals based on
3 Staff's revenue requirement. For a customer using 5,000 gallons per month, under Staff's
4 hybrid proposal, a customer in each of the three districts would have a monthly bill of \$38.91.
5 Under district specific pricing, a Brunswick customer would pay \$211.31, a Platte County
6 customer would pay \$51.63, and a St. Joseph customer would pay \$35.07. Under single tariff
7 pricing, all customers would pay \$28.39 per month with a usage of 5,000 gallons. Thus under
8 Staff's hybrid, a customer in St. Joseph would pay an extra \$4 per month, which is difficult
9 for that customer, but it saves the Brunswick customer approximately \$175 per month and the
10 Platte County customer approximately \$16 per month. In the macro view, where the
11 Commission needs to focus its decision on the welfare of all customers in the state, a four-
12 dollar payment by an average St. Joseph customer is a small price to pay to save the average
13 Brunswick customer \$175.

14 Q. Based upon that answer, does Staff's hybrid pricing structure result in
15 subsidization?

16 A. It might.

17 Q. Please explain.

18 A. As explained earlier, a subsidy results when costs to one entity or group is
19 offset by another entity or group. In this situation, in order to evaluate if a subsidy exists,
20 exact costs would have to be determined. When conducting a cost of service study,
21 determining the exact cost of service is difficult at best. The reason for the difficulty is the
22 nature of having a large company providing service to multiple service territories. Certain
23 costs are easy to assign to a certain district. Costs associated with treatment, capital

Surrebuttal Testimony of
James A. Busch

1 expenditures, etc. are directly assigned to the district that caused the costs. However, there
2 are many other costs that need to be allocated to the various districts. These costs are
3 considered corporate or overhead costs. These costs include items like executive salaries,
4 Belleville lab costs, tank painting, and outside services. Since these costs are not directly
5 assignable to any district, an allocation method has to be used to apportion the costs to the
6 various districts. When costs are allocated, a lack of precision results that then raises
7 questions into what is the exact cost of providing service to any district. Due to this lack of
8 precision, it is difficult to determine if one district is in fact a "high-cost" district or a "low-
9 cost" district.

10 Q. Do you have an example?

11 A. Yes. In this proceeding, Staff expert Kim Bolin recommends that
12 approximately \$1.3 million be included in rates for tank painting on a Company-wide basis.
13 Ms. Bolin originally allocated this \$1.3 million expense to each water district based upon the
14 number of water storage tanks in each district. This seemed like a reasonable approach.
15 However, after discussions with various parties, it was determined that all tanks are not
16 created equal and a different allocation method may be more appropriate. Many of the tanks
17 in the smaller districts, i.e. Brunswick, are very small compared to the tanks in St. Louis or
18 other larger districts that have larger populations to serve. After studying the issue, Ms. Bolin
19 is working on a new allocation method for the \$1.3 million based upon square footage of the
20 tanks rather than the number of tanks per district. This currently seems like a more equitable
21 method to allocate those costs. For Ms. Bolin's explanation, please refer to her Rebuttal
22 Testimony.

23 Q. So what does that demonstrate?

Surrebuttal Testimony of
James A. Busch

1 A. It demonstrates that regardless of the best efforts of any analysis, the level of
2 precision necessary to allocate corporate costs is daunting. Ms. Bolin made what seemed like
3 the most reasonable approach to allocate tank painting costs in her Direct Testimony.
4 However, after further study, it was determined that there may be a better allocation method.
5 Thus, the results of the district specific cost of service results will be changed. Further,
6 considering the total level of costs is greater in St. Louis than in Brunswick, this seemingly
7 small movement of costs will have a negligible impact on the rates in St. Louis, but may have
8 a significant impact on the rates in Brunswick.

9 Q. What is the impact on the district specific cost of service results due to the
10 change in allocation method?

11 A. The results of Ms. Bolin's change are still being determined. However,
12 preliminary results indicate that fewer costs associated with tank painting will be allocated to
13 districts such as Brunswick and Spring Valley and any other district with small storage tanks.
14 More costs associated with tank painting will be allocated to St. Louis and other districts that
15 have large storage tanks. Thus with just this one change, a so-called "high cost" district had
16 its costs reduced and a so-called "low cost" district had its costs increased.

17 Q. What conclusions on subsidies does Staff draw from this example?

18 A. Based upon the lack of precision in anybody's ability to perfectly allocate
19 costs, under the circumstances present in the proceeding, Staff asserts that using a district-
20 specific pricing strategy based upon any cost of service study creates the potential for certain
21 districts to pay rates that may be unreasonable. Further, whereas there may be some level of
22 subsidization among districts, no one can claim with any level of certainty which districts are
23 providing subsidies and which districts are receiving subsidies.

Surrebuttal Testimony of
James A. Busch

1 Q. Another common theme among witnesses Gorman, Johnstone, and
2 Meisenheimer in opposition of Staff's proposal is that Staff's grouping of districts is not cost
3 based. Is that true?

4 A. Yes. Staff did not set out to determine which districts should be grouped
5 together based upon similar costs. As pointed out in my Direct Testimony, Staff's grouping
6 was to group districts based upon operating characteristics and geographic location. As noted
7 earlier in this testimony, determining exact costs is, at best, an educated guess. As MAWC
8 witness Dr. McDermott explains in various parts of his Rebuttal Testimony, determining the
9 appropriate cost measure to compare costs among districts is imprecise. Instead of looking
10 for cost characteristics, Staff chose the twin concepts of operating characteristics and
11 geography. Staff recommends that this approach leads to a reasonable result.

12 Q. Does Staff's groupings fit with MAWC's current operating characteristics?

13 A. Yes. Attached as Schedule JAB-SR3 are organizational charts for MAWC
14 Field Operations. ** _____
15 _____
16 _____
17 _____
18 _____

19 _____ ** These general groupings are similar to the groupings Staff used in creating its
20 hybrid pricing structure. These operating characteristics are in addition to the relative similar
21 sources of supply that Staff proposed in my Direct Testimony.

22 **STAFF'S PROPOSAL vs SINGLE-TARIFF PRICING**

23 Q. What is MAWC witness Dr. McDermott's view of Staff's hybrid pricing
24 structure?

NP

Surrebuttal Testimony of
James A. Busch

1 A. Dr. McDermott states on page 20, line 434 and lines 439 - 441, that Staff's
2 proposal is unnecessary because Dr. McDermott believes that any division of districts is
3 arbitrary and flawed.

4 Q. What is Staff's response to Dr. McDermott?

5 A. Generally, Staff agrees that there are flaws to any division of districts, as well
6 as flaws to single-tariff pricing and district specific pricing. No one method is vastly superior
7 to any other. If one were, the parties would not be having this debate now and one preferred
8 method would be recommended by all parties. Instead, the Commission is tasked with
9 determining the most reasonable pricing structure, which includes consideration of the various
10 conditions prevalent in MAWC's operating territory in order to make such a determination.
11 Staff's pricing structure is the most reasonable pricing structure in this proceeding when one
12 considers all relevant factors.

13 Q. Please explain.

14 A. Public Counsel and intervenors AgP and MIEC primarily argue for district
15 specific pricing. There are certain characteristics of this structure that are appealing. The
16 theory of cost causation is one. MAWC argues for single-tariff pricing. There are certain
17 characteristics of this structure that are appealing. The fact that trying to allocate corporate
18 costs is such an inexact science is one. Staff's proposal takes the various characteristics of
19 both structures and combines them into the most reasonable alternative.

20 With three water districts, as proposed by Staff, the need to be as precise as
21 possible in allocating costs is lessened. The Company already assigns work in its various
22 districts from a centralized location, i.e. the small systems around Branson are generally
23 assigned to the Joplin operating district. Also, the concept of forming districts around similar

Surrebuttal Testimony of
James A. Busch

1 cost structures, not necessarily the costs themselves keeps the theory of cost causation alive.
2 Staff's proposal eliminates the need to be so precise and focuses on the twin categories of
3 source of supply and geography. While not perfect, it is reasonable.

4 Q. Why doesn't Staff propose single-tariff pricing?

5 A. There are a couple of reasons. First, the Commission ordered comment cards
6 and local public hearings in this case and as a result Staff has read over 9,000 comment cards
7 and participated in 11 Local Public Hearings. Many customers are opposed to single-tariff
8 pricing and prefer some form of district specific pricing. However, as discussed in my Direct
9 Testimony, it is becoming burdensome to maintain district specific pricing. The need to focus
10 Staff's energy on creating 27 cost of service studies (and possibly more if MAWC continues
11 to purchase water and sewer systems) takes valuable time and resources away from the more
12 important function of reviewing the Company's cost structure and looking for imprudent
13 actions. Further, as MAWC continually adds smaller systems, the need to create a larger
14 customer base is imperative. Many of the systems that are being added have small customer
15 bases and any improvements that may be needed or even necessitated by the Missouri
16 Department of Natural Resources (DNR) will cause those rates to increase dramatically.
17 Creating hybrid districts helps offset the potential for future rate shock.

18 Second, as pointed out by MIEC witness Gorman earlier in this proceeding, a
19 completely single-tariff priced could lead the Company to over-invest. Dr. McDermott states
20 in his Rebuttal Testimony page 15, lines 334 – 335, that “[a]s a matter of efficiency this
21 assertion is nearly impossible to evaluate as the parties provide no mechanism as to why the
22 Company should invest inefficiently.” However, Staff's view is that there is an incentive to
23 overinvest. The economic model of regulation is premised on the fact that the utility profits

Surrebuttal Testimony of
James A. Busch

1 on its investment. The basic regulatory equation as everyone knows is Revenue Requirement
2 = Expenses + (Net Rate Base * Rate of Return). Thus, the utility receives the opportunity to
3 cover prudently incurred expenses plus earn a return on its prudently incurred investment.
4 The only profit built into the model is therefore return on investment. To grow, the utility
5 must invest. Single-tariff pricing allows for larger investment to occur because it is spread
6 over the maximum level of customers. This means that a large investment would have a
7 smaller impact on the customer. District specific pricing helps to curtail that incentive.
8 Staff's hybrid also helps to curtail that incentive. Hybrid districts create districts with greater
9 customer levels than a district specific pricing structure, but are still small enough that any
10 investment in any given area will still have a larger impact on customers than under the
11 single-tariff pricing structure.

12 Q. Do Staff and other parties have the ability to conduct prudence reviews of all
13 of the Company's investment to prevent such an occurrence?

14 A. Yes. Any investment made by a utility is subject to a prudence review during
15 any subsequent rate case filing. An example would be what happened in Case No. WR-2000-
16 0281 filed by MAWC. In that proceeding, MAWC was, among other issues, seeking to
17 include in rate base the cost of its new water treatment facility that it built in St. Joseph. Part
18 of the selling point of the plant was MAWC's proposal to have a single-tariff rate. This rate
19 structure would have spread the cost of the new treatment facility to all of MAWC's
20 customers at that time. Staff, Public Counsel, and AgP filed testimony proposing a prudence
21 disallowance of portions of that plant. Ultimately, only a small portion of the plant was
22 deemed imprudent. If MAWC is granted single-tariff rates in this case, there could be future
23 attempts to invest more than may be necessary and prudent.

1 **SPECIFIC RESPONSES TO OTHER COMMENTS**

2 Q. On page 5, lines 4 – 6 of his Rebuttal Testimony, witness Gorman states,
3 “[r]ather, the subsidy (sic) to the Jefferson City District appears to be designed to mitigate the
4 cost of this district’s large capital investment program in this case.” Do you want to comment
5 on Mr. Gorman’s assertion?

6 A. Yes. Staff developed its proposal based upon what it deems is in the best
7 interest of all MAWC’s customers in the State and in the public interest generally. Staff does
8 not have the luxury to simplistically only worry about how its proposals impact one isolated
9 class in one isolated district. As pointed out in my Direct Testimony, Staff is concerned about
10 all of the customers, including the dozens of small water and sewer systems in this State and
11 creating ways to ensure that ALL customers have access to safe and adequate service at just
12 and reasonable rates. Staff’s proposal does that. Hopefully, Staff’s proposal continues to
13 encourage larger companies to investigate purchasing smaller systems in order to help keep
14 those systems functioning properly. At no time did Staff look at the investment in any one
15 specific district and try to devise a strategy that would benefit one district at the expense of
16 another district.

17 Q. On page 8, lines 5 – 19, witness Gorman in his Rebuttal Testimony discusses
18 his concern over MAWC’s acquisition of smaller utility systems. Specifically on lines 8 – 12,
19 witness Gorman states, “I strongly encourage the Commission to consider placing acquisition
20 criteria on all future acquisitions of water and sewer utilities. These criteria should encourage
21 the acquiring utility to perform due diligence of the target acquisition and limit the acquisition
22 price to an amount that can be supported at reasonable water/wastewater service prices.” He
23 then states on lines 15 – 18, “[i]t is not reasonable for the acquiring utility simply to purchase

Surrebuttal Testimony of
James A. Busch

1 struggling systems at unreasonable acquisition prices with the expectation that the acquisition
2 price will be subsidized by existing water districts.” Please comment.

3 A. Witness Gorman, based on these statements, does not understand what has
4 occurred regarding MAWC’s purchase of the few systems it has purchased. Public Counsel
5 witness Ted Robertson in both his Direct and Rebuttal Testimonies addresses this issue. The
6 use of Mr. Robertson’s numbers is not an endorsement of the validity of his argument in this
7 testimony, and the numbers are being used for illustrative purposes only. Ms. Bolin addresses
8 Staff’s position on this matter in her testimony. Of the three purchases that Mr. Robertson
9 refers to in this proceeding, there is one supposed acquisition premium that is de minimus.
10 Mr. Robertson calculates the amount of the acquisition premium for the Loma Linda system
11 at ** ____ **. (Robertson Direct, page 10, line 6) According to Mr. Robertson, MAWC’s
12 acquisition of the Aqua properties leads to an acquisition premium of ** _____ **.
13 (Robertson Rebuttal, page 3, line 15) The acquisition of Roark results in an acquisition
14 discount where MAWC paid less than book value according to Mr. Robertson. This amount
15 according to Mr. Robertson is ** _____ **. (Robertson Direct, page 19, line 5) Thus,
16 there is no evidence at all that MAWC’s purchase of these systems for prices that are
17 significantly greater than rate base such that the existing systems would be paying for the
18 Company’s purchases. Please review Mr. Robertson’s and Ms. Bolin’s testimony in this case
19 for a full explanation of any potential acquisition premium or discount.

20 Therefore, it is Staff’s recommendation that the Commission continue the status quo
21 regarding its handling of any future acquisitions. Currently, Staff does a review of all
22 proposed transfer of assets and makes a recommendation as to whether or not each acquisition
23 is in the public interest. A part of that review is a determination of rate base to compare to the

Surrebuttal Testimony of
James A. Busch

1 purchase price. This is done to let any purchaser know what amounts will be built into rate
2 base during any future rate proceeding involving the purchased assets.

3 **ALTERNATIVE RECOMMENDATIONS**

4 Q. Has any other party made an alternative recommendation other than district
5 specific or single-tariff pricing?

6 A. Yes. Witnesses Meisenheimer, Gorman, and Johnstone all propose different
7 alternate hybrid proposals in their rebuttal testimonies. I will not rebut them individually, but
8 rather address them as a whole since the basic premise is the same. All three propose to leave
9 the large districts on district specific rates and then combine the smaller districts in various
10 combinations. These combinations are theoretically determined by some aspect of cost.
11 However, as discussed earlier in my Surrebuttal Testimony and in Dr. McDermott's Rebuttal
12 Testimony, the costs that these witnesses use is highly suspect. Simply stating that a district
13 is a high cost district because its cost per customer is higher is not relevant. Many times, the
14 reason for the high cost per customer is simply because there are fewer customers to spread
15 the costs around. For example, none of the witnesses seem to investigate the cost of labor in
16 St. Louis versus the cost of labor in Brunswick. However, the unit labor cost in St. Louis is
17 higher based upon information provided by Staff's Auditors. The difference is that the labor
18 cost in St. Louis gets spread out over much larger customers.

19 Also, one of Staff's reasons for combining the districts the way it was
20 proposed in my Direct Testimony is to help insure that investment can be made in all districts
21 without pricing out certain customers. By combining the smaller districts but leaving the
22 larger districts on district specific rates completely misses this aspect of Staff's proposal. In
23 no way would combining the smaller districts help offset the capital improvements that will
24 be necessary over time. In fact, if one were to believe that the other parties were correct

Surrebuttal Testimony of
James A. Busch

1 regarding the high-cost situation of the smaller districts, their proposals would make a tough
2 situation even tougher.

3 **SEWER OPERATIONS**

4 Q. On page 7, lines 4 – 20, witness Gorman in his Rebuttal Testimony disagrees
5 with Staff's proposal to have Hybrid Water District 1 share in the revenue responsibility of
6 certain sewer customers. Do you have a comment?

7 A. Yes. First, on page 7, lines 5 and 6, witness Gorman states that Staff proposes
8 Hybrid Water District 1 provide a subsidy to certain sewer customers. Staff does not propose
9 a subsidy. As noted earlier in my Surrebuttal, a subsidy can only be determined if one were to
10 know the exact cost of providing service to any customer or group of customers. That is not
11 the case here. Therefore, since there seems to be some issues regarding the high level of
12 corporate costs and allocations, Staff is proposing that some of the excess revenues that are
13 shown to be collected from the sewer customers be shared with the customers of Hybrid
14 District 1. Also, witness Gorman goes on to state on lines 16 – 18 of this Rebuttal Testimony
15 that all water customers should share in any shared revenue responsibility. I disagree with
16 this proposal. There are many smaller water districts that would feel the brunt of a potential
17 increase. Sharing the extra revenue with all of those customers will have a greater impact on
18 them than the slight increase to the customers of Hybrid Water District 1.

19 Q. On page 13, lines 7 – 10 of her Rebuttal Testimony, Public Counsel witness
20 Meisenheimer, in discussing Staff's proposal regarding sewer customers states that Staff's
21 proposal "appears to be based on Staff's desire to produce below cost sewer rates." Please
22 comment.

23 A. Staff has no desire to produce below cost sewer rates. Staff, and to a similar
24 degree MAWC, is concerned about excessively high sewer rates and the inability to allocate

Surrebuttal Testimony of
James A. Busch

1 corporate costs correctly to the various customers served by MAWC, be they water or sewer.
2 Due to the imprecise nature of corporate cost allocations, Staff is uncomfortable with the
3 results of the cost of service studies being used to recommend district specific rates to the
4 Commission. The same problems discussed above about the level of and the allocation of
5 corporate costs among the water districts also apply to the sewer districts. Therefore, since
6 there is no precise way to pinpoint the EXACT cost of providing service to the customers,
7 Staff recommends that a revenue shift, based on its cost of service studies, be performed to
8 offset what could be even higher sewer rates than what are currently in effect.

9 Staff is very concerned with the ever increasing cost of providing sewer
10 service to MAWC's customers. There are some inherent reasons why those costs are high
11 that are based on certain direct costs to those systems. These reasons include certain DNR
12 required enhancements to meet new regulations. However, there are other factors that impact
13 those rates and Staff needs to be able to focus on those reasons as discussed above. Until
14 there is greater certainty regarding the allocation of corporate costs, Staff recommends some
15 shifting of revenue responsibility to try to put a ceiling on sewer rates at this time.

16 **STAFF RECOMMENDATIONS**

17 Q. Several times throughout your testimonies, you comment on the inherent
18 problems with corporate allocations. Does Staff have a recommendation in how to address
19 the problem of corporate allocations?

20 A. Yes. It is my understanding that part of the problem is working through how
21 American Water allocates its Corporate costs to the various states. The next problem is being
22 able to devote the proper amount of time and resources to determine the most reasonable
23 method to allocate all of these costs to the various districts, water customers, sewer customers,
24 and classes. Staff recommends that the Commission open a working docket that will allow a

Surrebuttal Testimony of
James A. Busch

1 full investigation into corporate costs and allocations methods. A general rate case does not
2 give any party sufficient time to investigate this issue and make a recommendation. A docket
3 created by the Commission to investigate MAWC and its parent will give Staff, Public
4 Counsel, and any other interested stakeholder the appropriate vehicle to truly dig into these
5 costs.

6 Q. What is Staff's recommendation to the Commission in this proceeding?

7 A. Staff continues to recommend its hybrid rate proposal. In considering the
8 evidence presented in the case, Staff respectfully recommends that the Commission not focus
9 on the so-called subsidy issue and instead focus on approving rates that are just and
10 reasonable for all of MAWC's customers in the state regardless of location, size of district, or
11 when the system was acquired. In order to truly know if customers in one district are
12 subsidizing customers in another district, the precise cost of service would need to be
13 calculated for each district. At this time, the ability to determine with the required level of
14 precision to know the actual cost of providing service to any given customer in any given
15 district served by MAWC is not perfect. Staff's recommendation in its Direct Testimony to
16 create three hybrid water districts and four sewer districts based on geographical and
17 operating characteristics satisfies that requirement and lessens the need for perfection in
18 determining the actual cost of providing service to any given customer in any given district.

19 Q. Is there one other matter that Staff needs to bring to the Commission's
20 attention?

21 A. Yes. In the Unanimous Stipulation and Agreement approved by the
22 Commission in Case No. WO-2011-0168 that allowed for the transfer of Aqua Missouri's

Surrebuttal Testimony of
James A. Busch

1 assets to MAWC, one of the stipulations stated that any increase in the rates of customers of
2 the former Aqua territories would be governed by the following limitation:

3 Any increase in rates for any current Aqua Missouri customer will
4 occur "x" amount of days after the change in rates for current
5 MAWC customers. This "x" amount of days will be the days
6 between the filing of any potential rate request by MAWC and the
7 September 1, 2011 moratorium agreed to by Aqua. For example, if
8 MAWC files a rate request on July 1, 2011, that is 62 days before
9 the September 1, 2011 moratorium. Based upon the outcome of
10 MAWC's filed rate request, the new rates for current Aqua
11 customers will go into effect 62 days after the rates for current
12 MAWC go into effect. Thus, assuming a July 1, 2011 filing and a
13 subsequent June 1, 2012 effective date of new rates, Aqua system
14 customers rates would not increase until August 2, 2012 (62 days
15 after June 1, 2012). If a decrease in rates is determined for any
16 Aqua system, then that decrease shall go into effect when MAWC
17 rates go into effect.
18

19 In this case, MAWC filed its rate request on June 30, 2011, 63 days before
20 September 1, 2011. The proposed operation of law date is May 27, 2012. If the new rates go
21 into effect on May 27, 2012, rates for the former Aqua Missouri customers will become
22 effective on or about July 29, 2012. If any settlement is reached that causes rates to become
23 effective before the operation of law date, then a new effective date for the former Aqua
24 Missouri customers will need to be calculated. Likewise, if the Commission issues a Report
25 and Order in this matter, the different effective dates for former Aqua Missouri customers
26 should be included.

27 Q. Does this conclude your Surrebuttal Testimony?

28 A. Yes.

Ranking of Residential Average Monthly Bills

Name of Company	Date of last effective tariff	Customer Charge	Commodity Rate	Average Bill**
MAWC - Brunswick	July 1, 2010	\$ 21.21	\$11.5849 per 1,000	\$ 79.13
MAWC - Aqua - Lakewood Manor	April 1, 2010	\$ 36.89	\$9.13 per 1,000 (over 2,000)	\$ 64.28
MAWC - Aqua - Spring Valley	April 1, 2010	\$ 34.97	\$9.34 per 1,000 (over 2,000)	\$ 62.99
MAWC - Warren County	July 1, 2010	\$ 22.29	\$7.1955 per 1,000	\$ 58.27
MAWC - Aqua - Ozark Mountain	April 1, 2010	\$ 29.83	\$7.60 per 1,000 (over 3,000)	\$ 52.63
Liberty - KMB - Warren Woods	April 21, 2006	\$ 23.39	\$5.29 per 1,000	\$ 49.84
MAWC - Aqua - Lake Taneycomo	April 1, 2010	\$ 27.76	\$6.22 per 1,000 (over 2,000)	\$ 46.42
MAWC - Platte County	July 1, 2010	\$ 13.12	\$6.593 per 1,000	\$ 46.09
Liberty - KMB - Scotsdale	February 1, 2011	\$ 42.42	\$5.52 per 1,000 (over 10,000)	\$ 42.42
MAWC - Aqua - White Branch	April 1, 2010	\$ 42.40		\$ 42.40
Osage Water	September 19, 2009	\$ 24.76	\$5.86 per 1,000 (over 2,000)	\$ 42.34
Hickory Hills Water & Sewer	August 10, 2009	\$ 20.47	\$4.06 per 1,000	\$ 40.77
Calvey Brook	December 31, 2004	\$ 36.36	\$2.05 per 1,000 (over 3,000)	\$ 40.46
MAWC - Mexico	July 1, 2010	\$ 10.94	\$5.649 per 1,000	\$ 39.19
Algonquin	April 2, 2007	\$ 8.96	\$5.96 per 1,000	\$ 38.76
Holtgrewe Farms	January 5, 2011	\$ 15.10	\$4.66 per 1,000	\$ 38.40
MAWC - Aqua-Rankin Acres	April 1, 2010	\$ 18.09	\$3.767 per 1,000	\$ 36.93
Raytown	January 31, 2011	\$ 8.80	\$5.53 per 1,000	\$ 36.45
MAWC - Joplin	July 1, 2010	\$ 16.84	\$3.8017 per 1,000	\$ 35.85
Village Greens	October 28, 2004	\$ 29.59	\$2.74 per 1,000 (over 3,000)	\$ 35.07
Gascony Water Company	April 1, 1999	\$ 103.33		\$ 34.44

Ranking of Residential Average Monthly Bills

Name of Company	Date of last effective tariff	Customer Charge	Commodity Rate	Average Bill**
Whiteside Hidden Acres - Quarterly	April 11, 2011	\$ 31.89	\$4.60 per 1,000	\$ 33.63
Valley Woods	July 10, 2010	\$ 15.97	\$4.259 per 1,000 (over 1,000)	\$ 33.01
MAWC - Aqua - Riverside	April 1, 2010	\$ 20.80	\$4.03 per 1,000 (over 2,000)	\$ 32.89
Midland Water	January 27, 2012	\$ 9.35	\$4.64 per 1,000	\$ 32.55
MAWC - Jefferson City	July 1, 2010	\$ 11.79	\$3.88 per 1,000	\$ 31.19
Liberty - KMB - Lakewood Hills	February 1, 2011	\$ 13.53	\$3.51 per 1,000	\$ 31.08
Liberty - KMB - Crestview Acres	February 1, 2011	\$ 12.45	\$3.67 per 1,000	\$ 30.80
MAWC - St. Joseph	July 1, 2010	\$ 9.26	\$4.2705 per 1,000	\$ 30.61
Spokane Highlands	May 7, 2008	\$ 12.38	\$3.56 per 1,000	\$ 30.18
MAWC - SLM Quarterly	July 1, 2010	\$ 14.14	\$3.1901 per 1,000	\$ 30.09
Roy-L Utilities	May 5, 2008	\$ 28.23		\$ 28.23
Liberty - KMB - Hillshine	February 1, 2011	\$ 14.28	\$2.77 per 1,000	\$ 28.13
Environmental Utilities	April 20, 2003	\$ 16.36	\$3.8701 per 1,000 (over 2,000)	\$ 27.97
Riverfork	December 19, 2008	\$ 14.56	\$4.45 per 1,000 (over 2,000)	\$ 27.91
MAWC - Warrensburg	July 1, 2010	\$ 10.98	\$3.3542 per 1,000	\$ 27.75
Empire District Electric	February 4, 2006	\$ 10.22	\$3.40 per 1,000	\$ 27.22
Stockton Hills	September 11, 2010	\$ 13.13	\$3.21 per 1,000 (over 1,000)	\$ 25.97
Lakeland Heights Water	September 12, 2009	\$ 12.29	\$4.46 per 1,000 (over 2,000)	\$ 25.67
MAWC - SLM Monthly	July 1, 2010	\$ 9.65	\$3.1901 per 1,000	\$ 25.60
US Water	October 1, 2000	\$ 10.35	\$0.3493 per 100 (over 700)	\$ 25.37
Foxfire - Benton	December 10, 2002	\$ 25.29		\$ 25.29

Ranking of Residential Average Monthly Bills

Name of Company	Date of last effective tariff	Customer Charge	Commodity Rate	Average Bill**
Whispering Hills	September 12, 2009	\$ 20.69	\$3.67 per 1,000 (over 4,000)	\$ 24.36
Seges Mobile Home Park	December 31, 2009	\$ 12.49	\$2.37 per 1,000	\$ 24.34
Foxfire - Stone	December 10, 2002	\$ 20.10	\$1.36 per 1,000 (over 2,000)	\$ 24.18
Port Perry Service	May 15, 2002	\$ 13.23	\$3.58 per 1,000 (over 2,000)	\$ 23.97
Bilyeu	July 15, 2007	\$ 11.56	\$2.39 per 1,000	\$ 23.51
MAWC - Roark Water & Sewer	January 18, 2005	\$ 13.72	\$3.20 per 1,000 (over 2,000)	\$ 23.32
Tri-States	May 1, 2011	\$ 7.45	\$3.11 per 1,000	\$ 23.00
Southtown Utilities	December 1, 2007	\$ 7.47	\$2.94 per 1,000	\$ 22.17
Subarban Water & Sewer	June 5, 2009	\$ 5.31	\$3.36 per 1,000	\$ 22.11
Taney County Water	December 3, 2004	\$ 7.87	\$3.53 per 1,000 (over 1,000)	\$ 21.99
Moore Bend Water	December 7, 2006	\$ 13.87	\$2.47 per 1,000 (over 2,000)	\$ 21.28
Gladlo Water & Sewer	November 30, 2009	\$ 8.28	\$3.13 per 1,000 (over 1,000)	\$ 20.80
SK & M Water & Sewer	May 13, 2010	\$ 6.55	\$2.76 per 1,000	\$ 20.35
MAWC - Aqua - Jefferson City	April 1, 2010	\$ 5.79	\$2.85 per 1,000	\$ 20.04
Franklin County Water Company	October 15, 2006	\$ 5.70	\$2.61 per 1,000	\$ 18.75
Liberty - KMB - High Ridge Manor	April 21, 2006	\$ 6.54	\$2.44 per 1,000	\$ 18.74
Lake Northwoods Utility	May 21, 1984	\$ 9.70	\$2.83 per 1,000 (over 2,000)	\$ 18.19
Evergreen	October 27, 2005	\$ 7.71	\$2.054 per 1,000 (over 1,000)	\$ 17.98
Lake Region Water & Sewer	September 6, 2010	\$ 12.99	\$2.49 per 1,000 (over 3,000)	\$ 17.97
Liberty - KMB - Cedar Hill Estates	April 21, 2006	\$ 8.68	\$1.84 per 1,000	\$ 17.88
MAWC - Loma Linda Estates	November 1, 1996	\$ 5.48	\$2.47 per 1,000	\$ 17.83

Ranking of Residential Average Monthly Bills

Name of Company	Date of last effective tariff	Customer Charge	Commodity Rate	Average Bill**
Emerald Point Utility Company	May 10, 2000	\$ 6.52	\$3.50 per 1,000 (over 2,000)	\$ 17.02
Rogue Creek Utilities	November 11, 2002	\$ 11.51	\$1.189 per 1,000 (over 1,000)	\$ 16.27
Woodland Manor	December 12, 1992	\$ 16.13	\$2.45 per 1,000 (over 5,000)	\$ 16.13
Terre Du Lac Utilities	4/1/2000 Quarterly	\$ 8.12	\$2.35 per 1,000 (over 5,000)	\$ 15.95
Rex Deffenderfer	May 1, 2011	\$ 7.25	\$1.73 per 1,000	\$ 15.90
Oakbrier Water	September 12, 2009	\$ 15.59	\$2.44 per 1,000 (over 5,000)	\$ 15.59
Public Funding of Ozark	March 8, 1996	\$ 6.68	\$2.93 per 1,000 (over 2,000)	\$ 15.47
Kimberling City Water	September 1, 1982	\$ 15.00	\$1.69 per 1,000 (over 5,000)	\$ 15.00
Liberty - Noel Water	November 12, 2009	\$ 7.76	\$1.80 per 1,000 (over 1,000)	\$ 14.96
Ozark Shores Water	December 11, 1998	\$ 9.73	\$1.71 per 1,000 (over 2,000)	\$ 14.86
Middle Fork*	May 1, 2011	\$ -	\$2.71 per 1,000	\$ 13.55
Brandco	April 8, 1989	\$ 3.58	\$1.84 per 1,000	\$ 12.78
IH Utilities	October 27, 2009	\$ 10.81	\$1.89 per 1,000 (over 4,000)	\$ 12.70
Argyle Estates Water Supply	March 22, 2002	\$ 37.94	\$2.46 per 1,000 (over 6,000)	\$ 12.65
Willows Utility	April 1, 1995	\$ 5.23	\$1.21 per 1,000 (over 1,000)	\$ 10.07
Peaceful Valley Service	May 7, 2009	\$ 9.75		\$ 9.75
Highway H Utilities	January 15, 2010	\$ 6.16	\$1.13 per 1,000 (over 2,000)	\$ 9.55
Missouri Utilities	July 10, 2009	\$ 6.34	\$1.05 per 1,000 (over 4,500)	\$ 6.87

*Middlefork provides wholesale water service to the cities of Stanberry and Grant City.

** (Based on 5,000 gallons monthly usage)

*** Residential Rate based on 5/8" meter or smallest meter

Average Monthly Residential Bill -- Based on 5,000 gallons of usage

HYBRID WATER DISTRICT ONE

HYBRID WATER DISTRICT TWO

	JC	MEX	SLM	SLQ	LC/M	WCW
Current	\$ 26.36	\$ 39.19	\$ 25.60	\$ 61.99	\$ 20.04	\$ 58.27
Hybrid	\$ 25.13	\$ 25.13	\$ 25.13	\$ 68.33	\$ 25.13	\$ 25.13
DSP	\$ 37.75	\$ 46.88	\$ 25.93	\$ 69.32	\$ 41.37	\$ 84.40
STP	\$ 28.39	\$ 28.39	\$ 28.39	\$ 68.57	\$ 28.39	\$ 28.39

	BRU	PC	STJ
Current	\$ 79.13	\$ 46.09	\$ 30.61
Hybrid	\$ 38.91	\$ 38.91	\$ 38.91
DSP	\$ 211.31	\$ 51.63	\$ 35.07
STP	\$ 28.39	\$ 28.39	\$ 28.39

HYBRID WATER DISTRICT THREE

	JOP	LL	WBG	LM*	LTA*	OZM*	RA**	RE*	RO(A)	RO(B)	SV*	WB**
Current	\$ 35.85	\$ 17.83	\$ 27.75	\$ 64.28	\$ 46.42	\$ 52.63	\$ 50.08	\$ 32.89	\$ 29.72	\$ 22.28	\$ 62.99	\$ 53.00
Hybrid	\$ 35.53	\$ 35.53	\$ 35.53	\$ 25.74	\$ 25.74	\$ 25.74	\$ 58.12	\$ 25.74	\$ 35.53	\$ 35.53	\$ 25.74	\$ 40.62
DSP	\$ 32.77	\$ 24.82	\$ 31.15	\$ 140.51	\$ 76.41	\$ 101.64	\$ 46.22	\$ 57.94	\$ 45.92	\$ 34.42	\$ 83.96	\$ 79.87
STP	\$ 28.39	\$ 28.39	\$ 28.39	\$ 20.35	\$ 20.35	\$ 20.35	\$ 46.93	\$ 20.35	\$ 28.39	\$ 28.39	\$ 20.35	\$ 32.57

* Includes first 2,000 gallons

** RA and WB non-metered rate

Average Monthly Residential Bill -- Percent Change from Current Rates

HYBRID WATER DISTRICT ONE

HYBRID WATER DISTRICT TWO

	JC	MEX	SLM	SLQ	LC/M	WCW
Hybrid	-4.66%	-35.87%	-1.84%	10.22%	25.39%	-56.87%
DSP	43.23%	19.64%	1.29%	11.83%	106.42%	44.84%
STP	7.72%	-27.54%	10.90%	10.62%	41.67%	-51.27%

	BRU	PC	STJ
Hybrid	-50.84%	-15.58%	27.09%
DSP	167.03%	12.04%	14.56%
STP	-64.12%	-38.39%	-7.26%

HYBRID WATER DISTRICT THREE

	JOP	LL	WBG	LM*	LTA*	OZM*	RA	RE*	RO(A)	RO(B)	SV*	WB
Hybrid	-0.89%	99.26%	28.03%	-59.96%	-44.56%	-51.10%	16.05%	-21.75%	19.54%	59.46%	-59.14%	-23.36%
DSP	-8.60%	39.20%	12.26%	118.59%	64.61%	93.13%	-7.71%	76.15%	54.50%	54.50%	33.29%	50.70%
STP	-20.80%	59.23%	2.31%	-68.33%	-56.15%	-61.32%	-6.29%	-38.11%	-4.47%	27.43%	-67.69%	-38.55%

* Includes first 2,000 gallons

** RA and WB non-metered rate

Schedule JAB-SR3

Is Deemed

Highly Confidential

In Its Entirety